



1988

ANNUAL REPORT



Silver Hart MINES LTD.

CORPORATE PROFILE

Silver Hart Mines Ltd. was founded as an Alberta corporation in December, 1982. It went public in April, 1984 on the Vancouver and Alberta Stock Exchanges and on January 2, 1985 began trading on NASDAQ in the United States.

Since inception, the Company's strategy has been to maintain a small, highly professional team which can locate and stake or acquire gold and silver properties in Canada and bring them into production. Silver Hart currently holds and expects to bring into production in 1990 a high grade silver property in the Yukon Territory (Hart silver property). It also holds and is exploring three large gold properties of the iron formation hosted type in the Bathurst Inlet area of the North West Territories and an important gold deposit near Snow Lake, Manitoba. Its land position in aggregate exceeds 219,000 acres. It is expected that the Snow Lake property will be brought into production in 1991.

As of December 31, 1988 there were 6,911,346 common shares outstanding. During 1988, a total of 548,200 shares were traded on the Vancouver Stock Exchange and a total of 50,479 shares on NASDAQ. The trading symbol in Canada is SVM and in the United States is SVMHF.

PRESIDENT'S REPORT

TO THE SHAREHOLDERS

Exploration activity was curtailed in 1988 as our efforts were concentrated on seeking financing to put at least one of our properties into production in 1990.

The 1988 diamond drilling program carried out on the Sunset Lake Property has increased the reserves on this property to 830,000 tons at 5.48% zinc, 2.07% lead, 6.36 oz. silver/ton and .024 oz. gold/ton. Silver Hart holds a 40% direct interest in this property and has operational control for which we receive 10% management fee. According to consulting geologists, the possibilities are excellent for increasing the reserves two to three fold within the zone and for locating additional, more proximal ore zones on the property.

The 1988 summer sampling program conducted by Chevron, our partner on the Turner Lake Property, gave positive results. Gold grades in excess of 0.2

oz. gold/ton over widths of 4 - 8 metres with a strikelength of 500 metres are probable. In 1989, the focus will be on defining the grade of the material and to evaluate the down dip potential. This work is expected to bring the property to an underground development decision. Our partner, Chevron Minerals Ltd., must spend \$1.3 million on the property in 1989 and pay Silver Hart \$400,000 cash, in accordance with the option agreement dated May 5, 1988.

A program of geological and geophysical work was completed in 1988 on the Snow Lake Property and returned several good gold values from an area near the northeastern property boundary. The potential of this area appears to be good. We are currently considering the possible entry of a large mining company as our partner in this development.

The extent of Silver Hart's current mineral inventory may be summarized as follows:

<u>Location</u>	<u>Tonnage</u>	<u>Oz./Ton Average</u>	<u>Price/Oz. Cdn</u>	<u>Metal Value Cdn</u>
Snow Lake, Manitoba	820,000	.27 gold	\$493.92	\$109,353,888
Pistol Lake, N.W.T.	540,374	.406 gold	\$493.92	\$108,362,018
Turner Lake, N.W.T.	1,300,000	.156 gold	\$493.92	\$100,166,976
Hart Silver, Yukon	116,000	56.4 silver	\$ 7.27	\$ 47,563,248
TOTAL VALUES CONTAINED IN RESERVES				<u>\$365,446,130</u>

Corporate

Last year we reported that we had signed a preliminary underwriting agreement with Morgan-Gundy International of Panama to raise \$10.0 million U.S. funds. Negotiations continued throughout the year, and at this time the prospect of concluding the deal is not encouraging. We have put this prospect on hold and have concentrated on other possibilities. Some of the possibilities look promising at this time.

We thank our shareholders for their patience and loyalty; we do believe they will be rewarded accordingly.

ON BEHALF OF THE BOARD OF DIRECTORS



ALVIN HARTER
President and Chief Executive Officer

FINANCIAL REVIEW

Consolidated Results

Silver Hart Mines Ltd. operates in Canada and is in the development stage with respect to its investment in mining properties.

The financial statements are consolidated to reflect Silver Hart's 53.7% ownership in Snow Lake Mines Ltd. Snow Lake is also in the development stage and is in most ways a parallel operation.

In 1987, the accounts of Porta-Test Inc., a company in which a 62% interest is held by Silver Hart, were included in the consolidated financial statements. In 1988, it was considered more appropriate to adopt the cost method of accounting for this investment as the subsidiary had incurred significant losses and the Company's interest was sold in 1989.

Comparative figures for 1987 have been restated to reflect this change in accounting policy.

The investment in Porta-Test Inc. was sold on March 30, 1989 for \$100,000. The impact of this transaction on the financial position of the Company is summarized in the notes to the financial statements (Note 14).

Financing

Income is limited to interest received on funds invested and fees received for the management of exploration for others. Such income amounted to \$158,892 in 1988 and \$242,877 in 1987.

Exploration activities and property acquisitions carried out since inception have been funded through public share offerings and private placements, in the form of "flow-through" share offerings. Equity financings to date are summarized as follows:

	SHARES	AMOUNT
1982	1,530,000	\$ 229,500
1983	2,307,500	1,112,251
1984	587,820	1,300,914
1985	995,150	5,035,600
1986	464,370	3,171,250
1987	776,768	3,438,500
1988	249,738	443,355
	6,911,346	\$14,731,370

The announced signing of an underwriting agreement covering the private placement of up to \$10.0 million in U.S. funds of preferred shares was not carried through. The prospect of concluding a deal with this party is not encouraging.

At the present time, our search for financing is concentrated on bringing in a partner who would have the capacity to assist us financially and operationally. Our objective is to have at least one property in production by early 1991.

Property Agreements

On May 5, 1988 the Company entered into an option agreement with Chevron Minerals Ltd. which granted them the right to earn a 45% participating interest in the Turner, Pistol Lake and Hood properties.

The agreement requires Chevron to spend \$4.0 million of recordable work on the properties by December 31, 1990 and to pay to Silver Hart \$3.0 million by February 28, 1992. To date \$1.4 million of the cash payment has been received.

Chevron has a further option, exercisable at any time on or before March 31, 1991, to earn an additional 5% participating interest in the properties provided that they make the payments as required and incur additional expenditures of \$2.25 million by December 31, 1992.

FINANCIAL HIGHLIGHTS

Years Ended December 31	1988	*1987	1986	1985	1984
Total Assets	\$20,989,041	\$21,928,839	\$17,014,031	\$8,570,206	\$2,824,038
Funds Used in Exploration					
Development	\$ 716,548	\$ 5,088,592	\$ 7,551,198	\$4,510,522	\$1,111,490
Shareholders' Equity	\$12,254,064	\$12,691,042	\$10,063,013	\$7,106,343	\$2,367,715

* Restated to reflect changes in accounting for subsidiary, Porta-Test Inc.

AUDITORS' REPORT

To The Shareholders Of
Silver Hart Mines Ltd.

We have examined the consolidated balance sheet of Silver Hart Mines Ltd. as at December 31, 1988 and December 31, 1987 and the consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Silver Hart Mines Ltd. and its subsidiary company, Snow Lake Mines Ltd., as development stage companies, capitalize costs incurred to explore and develop their mineral properties until the mineral properties are explored to a point where it has been determined that the mineral properties are capable of being economically developed through assessable exploration results or measurable reserves. Until this determination has been made, it is impractical to assess the realization of exploration and development costs capitalized to the mineral properties.


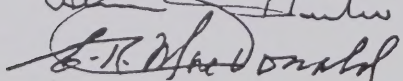
In our opinion, except for the effect, if any, of the inability to assess the realization of exploration and development costs capitalized as referred to in the previous paragraph, and except for the effect, if any, of such adjustments as would be required should the company be unable to realize its assets because of its inability to continue as a going concern as described in note 1(b) to the financial statements, these consolidated financial statements present fairly the financial position of the company as at December 31, 1988 and December 31, 1987 and the results of its operations and changes in its financial position for the years then ended in accordance with generally accepted accounting principles of Canada applied, after giving retroactive effect to the change in the method of accounting for the investment in Porta-Test Inc. as explained in note 2 to the financial statements, on a consistent basis.

Edmonton, Canada *Kouri Berezan Heinrichs*
June 7, 1989 Chartered Accountants

SILVER HART MINES LTD.
CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1988

	<u>1988</u>	<u>1987</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ —	\$ 44,242
Cash in escrow	—	539,000
Accounts receivable (note 3)	64,317	105,059
Prepaid expense	79,830	68,869
Receivable from affiliate (note 4)	<u>800,000</u>	<u>800,000</u>
	<u>944,147</u>	<u>1,557,170</u>
FIXED ASSETS (note 5)		
Equipment and leasehold improvements	263,286	263,284
Less accumulated depreciation	<u>147,782</u>	<u>102,709</u>
	<u>115,504</u>	<u>160,575</u>
OTHER ASSETS		
Marketable securities (note 6)	<u>119,000</u>	<u>95,000</u>
PROMISSORY NOTES RECEIVABLE (note 7)	<u>1,420,946</u>	<u>1,338,902</u>
DEFERRED EXPLORATION AND DEVELOPMENT COSTS (note 8)	<u>18,352,944</u>	<u>18,740,692</u>
INVESTMENT IN SUBSIDIARY (note 2)	<u>36,500</u>	<u>36,500</u>
	<u>\$20,989,041</u>	<u>\$21,928,839</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	\$ 4,985	\$ —
Bank loan (note 9)	700,000	700,000
Accounts payable and accrued liabilities	913,395	541,477
Payable to subsidiary company, Porta-Test Inc.	21,178	205,759
Promissory notes payable (note 10)	1,390,382	1,475,000
Principal due within one year on long-term debt	<u>1,400,000</u>	<u>600,000</u>
	<u>4,429,940</u>	<u>3,522,236</u>
LONG-TERM DEBT (note 11)	<u>—</u>	<u>1,400,000</u>
MINORITY INTEREST	<u>4,305,037</u>	<u>4,315,561</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 12)	14,731,370	14,288,015
RETAINED EARNINGS (DEFICIT)	<u>(2,477,306)</u>	<u>(1,596,973)</u>
	<u>12,254,064</u>	<u>12,691,042</u>
	<u>\$20,989,041</u>	<u>\$21,928,839</u>
CONTINGENT LIABILITIES (note 13)		
SUBSEQUENT EVENTS (note 14)		

Approved by the Board

 Director
 Director

SILVER HART MINES LTD.
CONSOLIDATED STATEMENT OF INCOME
 YEAR ENDED DECEMBER 31, 1988

	<u>1988</u>	<u>1987</u>
Income	\$ 158,892	\$ 242,877
Expenses		
Administrative	671,152	537,570
Depreciation	8,813	8,465
Interest and bank charges	305,694	214,975
Loss on abandoning mineral properties	<u>61,571</u>	<u>267,217</u>
	<u>1,047,230</u>	<u>1,028,227</u>
Income (loss) before minority interest	(888,338)	(785,350)
Minority interest	<u>18,774</u>	<u>(11,372)</u>
NET INCOME (LOSS)	<u>\$ (869,564)</u>	<u>\$ (796,722)</u>
Net income (loss) per share	<u>\$ (0.128)</u>	<u>\$ (0.131)</u>

SILVER HART MINES LTD.
**CONSOLIDATED STATEMENT OF
 RETAINED EARNINGS**
 YEAR ENDED DECEMBER 31, 1988

	<u>1988</u>	<u>1987</u>
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR	\$ (1,596,973)	\$ (786,501)
Net income (loss)	(869,564)	(796,722)
Share issue costs	<u>(10,769)</u>	<u>(13,750)</u>
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u>\$ (2,477,306)</u>	<u>\$ (1,596,973)</u>

SILVER HART MINES LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1988

	<u>1988</u>	<u>1987</u>
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net income (loss)	\$ (869,564)	\$ (796,722)
Items not involving cash		
Minority interest	(18,774)	11,372
Depreciation	8,813	8,465
Bad debt expense	104,655	—
Loss on abandoning of properties	<u>61,571</u>	<u>267,217</u>
	<u>(713,299)</u>	<u>(509,668)</u>
Changes in non-cash working capital items		
Accounts receivable	(37,095)	(3,512)
Accrued interest receivable	(82,044)	(73,687)
Prepaid expense	(10,961)	(31,317)
Accounts payable and accrued liabilities	<u>424,083</u>	<u>88,230</u>
	<u>293,983</u>	<u>(20,286)</u>
	<u>(419,316)</u>	<u>(529,954)</u>
CASH PROVIDED BY (USED IN) INVESTMENT ACTIVITIES		
Purchase of marketable securities	(24,000)	(70,000)
Purchase of fixed assets	—	(65,400)
Sale of option on property	1,000,000	—
Exploration and development costs	(716,548)	(5,088,592)
Investment in subsidiaries	—	(36,500)
Trust assets	—	170,387
Receivable from affiliate	<u>—</u>	<u>(800,000)</u>
	<u>259,452</u>	<u>(5,890,105)</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Advances to unit holders	—	(1,299,500)
Issue of share capital	443,355	3,438,500
Increase (decrease) in promissory notes	(684,618)	2,400,000
Advances from subsidiaries	(184,581)	205,759
Minority interest	8,250	1,675,000
Share issue costs	<u>(10,769)</u>	<u>(44,425)</u>
	<u>(428,363)</u>	<u>6,375,334</u>
INCREASE (DECREASE) IN CASH	(588,227)	(44,725)
Cash (bank indebtedness) at beginning of year	<u>(116,758)</u>	<u>(72,033)</u>
CASH (BANK INDEBTEDNESS) AT END OF YEAR (note 15)	<u>\$ (704,985)</u>	<u>\$ (116,758)</u>

SILVER HART MINES LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1988

1. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and are also in conformity, in all material respects, with accounting principles generally accepted in the United States.

(a) Basis of presentation

These consolidated financial statements include the accounts of Silver Hart Mines Ltd. and its subsidiary Snow Lake Mines Ltd., a company in which a 53.7% interest is held.

(b) Going concern assumption

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern by obtaining additional debt financing and/or by an injection of funds through joint venture arrangements with third parties, in order to meet debt obligations and to develop the properties.

(c) Fixed assets

Fixed assets are recorded at cost. Depreciation is provided on the diminishing balance basis at the following annual rates:

Automotive equipment	30%
Camp and mining equipment	30%
Office equipment	20%

Leasehold improvements are amortized on a straight-line basis over the term of the lease plus one renewal period.

(d) Marketable securities

Marketable securities are recorded at cost.

(e) Deferred exploration and development costs

The company operates in Canada and is in the development stage with respect to its investment in mining properties.

All costs related to the acquisition, exploration and development, including directly associated technical and administrative expenses, are capitalized by property.

At such time as commercial production commences, these costs will be charged to operations on the unit of production method based on estimated recoverable reserves.

The aggregate costs relating to abandoned properties will be charged to operations at the time of abandonment.

No gains or losses are recognized on the sale of mining properties except when there is a material disposition of reserves. Partial disposition and option proceeds are credited to the cost of the related property except when the proceeds exceed cost, the excess is credited to operations.

The carrying value of exploration and development costs represent costs incurred to date and are not intended to reflect present or future values.

All administrative costs that do not directly relate to and are not necessary for the exploration and development activity are expensed as incurred.

(f) Flow-through common shares

Proceeds from common shares issued pursuant to flow-through financing agreements are credited to share capital.

(g) Net income per share

Net income per share is calculated using the weighted average number of shares outstanding during the year.

(h) Investment in subsidiary

The investment in Porta-Test Inc. is recorded at cost (note 2).

(i) Investment in joint venture

The investment in the Sunset Lake joint venture is accounted for on the proportionate consolidation basis whereby the Company's pro rata share of each of the assets, liabilities, revenues and expenses of the joint venture is included in these financial statements.

2. CHANGE IN ACCOUNTING POLICY

The accounts of Porta - Test Inc., a company in which a 62% interest is held by Silver Hart Mines Ltd., are excluded from consolidation. The cost method of accounting for this investment is adopted because it is considered more appropriate in 1988 as the subsidiary had incurred significant losses and the Company's interest in the subsidiary was disposed of on March 30, 1989 (note 14 (a)).

Comparative figures for the year ended December 31, 1987 have been restated to reflect this change in accounting for the investment in Porta - Test Inc.

Based on unaudited financial information provided by the subsidiary, the effect of the change on the financial statements for the current period and the prior period presented, is summarized as follows:

	1988		1987	
	Cost Method	Consolidation	Cost Method	Consolidation
Net loss	\$ 869,564	\$1,928,520	\$ 796,722	\$1,424,794
Deficit	\$2,477,306	\$4,139,816	\$1,596,973	\$2,211,296

3. ACCOUNTS RECEIVABLE

	1988	1987
Trade accounts	\$ 36,078	\$ 32,334
Joint venture receivable	28,239	—
Receivable from affiliated companies	—	72,725
	<u>\$ 64,317</u>	<u>\$ 105,059</u>

4. RECEIVABLE FROM AFFILIATE

Pursuant to the 1987 acquisition of the partnership interest in Solid Wireline Services by 354002 Alberta Ltd., formerly a subsidiary company of Porta - Test Inc., the Company issued promissory notes totalling \$800,000 to the vendors of the partnership interests. Coincidentally with the issue of these promissory notes, 354002 Alberta Ltd. granted a promissory note to the Company in the same amount and with corresponding interest rate, terms and conditions as the promissory notes issued to the vendor (note 11).

5. FIXED ASSETS

	1988		1987	
	Cost	Accumulated Depreciation	Net	Net
Automotive equipment	\$ 42,865	\$ 27,018	\$ 15,847	\$ 22,639
Camp and mining equipment	152,336	87,681	64,655	92,363
Office equipment	54,669	26,047	28,622	36,509
Leasehold improvements	13,416	7,036	6,380	9,064
	<u>\$263,286</u>	<u>\$147,782</u>	<u>\$115,504</u>	<u>\$160,575</u>

Depreciation expense for the year is \$45,072 (1987 — \$41,540).

6. MARKETABLE SECURITIES

	1988	1987
Shares		
Vanstates Resources Ltd.		
150,000 shares (quoted market value \$9,000; 1987 — \$37,500)	\$ 25,000	\$ 25,000
Solid Resources Ltd.		
400,000 shares in escrow (quoted market value \$260,000)	24,000	—
Private mutual fund units		
Bear Syndicate		
9% interest (quoted market value \$7,480; 1987 — \$21,556)	70,000	70,000
	<u>\$119,000</u>	<u>\$ 95,000</u>

7. PROMISSORY NOTES RECEIVABLE

	<u>1988</u>	<u>1987</u>
Promissory notes, bearing interest at bank prime plus 1%	\$ 700,000	\$ 700,000
Accrued interest	220,946	138,902
Promissory notes, non-interest bearing	<u>500,000</u>	<u>500,000</u>
	<u>\$1,420,946</u>	<u>\$1,338,902</u>

Secured by and recoverable from ore of TM zone of Hart Property (note 8(d)).

8. DEFERRED EXPLORATION AND DEVELOPMENT COSTS

Deferred exploration and development costs include expenditures on the following mineral claims.

(a) AAH Claims

These claims were staked and registered by the Company.

(b) Pistol Lake, Turner and Hood Claims

Pursuant to agreements with unrelated parties the Company acquired the Pistol Lake claims by:

- (i) expending required expenditures of \$2,000,000,
- (ii) paying \$20,000 cash plus issuing 40,000 shares of the Company in 1985, and
- (iii) issuing 67,500 common shares of the Company in 1986.

The Turner and Hood claims were staked and registered by the Company.

On May 5, 1988 the Company entered into an option agreement with Chevron Minerals Ltd. which granted them the right to earn a forty-five percent (45%) participating interest in the property, provided that Chevron Minerals Ltd.:

- (i) incurs expenditures on the property as follows:

<u>EXPENDITURES</u>	<u>CUMULATIVE</u>	<u>DUE DATE</u>
\$1.0 million	\$1.0 million	by Dec. 31, 1988
\$1.3 million	\$2.3 million	by Dec. 31, 1989
\$1.7 million	\$4.0 million	by Dec. 31, 1990

- (ii) pays to the Company the total sum of three million dollars (\$3,000,000) in the following manner:

<u>PAYMENTS</u>	<u>CUMULATIVE</u>	<u>DUE DATE</u>
\$1.0 million	\$1.0 million	on execution
\$.4 million	\$1.4 million	by Jan. 31, 1989
\$.5 million	\$1.9 million	by Apr. 30, 1990
\$.55 million	\$2.45 million	by Apr. 30, 1991
\$.55 million	\$3.0 million	by Feb. 28, 1992

(\$1.4 million has been received to April 30, 1989)

Chevron Minerals Ltd. can elect at any time on or before March 31, 1991, to proceed with an option to earn an additional five percent (5%) participating interest in the property, provided that they make the payments as required above and incur additional expenditures on the property as follows:

<u>EXPENDITURES</u>	<u>CUMULATIVE</u>	<u>DUE DATE</u>
\$1.5 million	\$1.5 million	by Dec. 31, 1991
\$.75 million	\$2.25 million	by Dec. 31, 1992

Title to the property has been transferred to and is now being held by Chevron Minerals Ltd. subject to terms of the agreement.

(c) Mate Claims

These claims were acquired by the Company from an unrelated party for cash pursuant to an option agreement. These claims have been registered in the name of the Company.

(d) Hart Claims

The Company and Ark La Tex Industries Ltd. (Ark La Tex) hold interest in these claims. Pursuant to exercising the option, the Company holds a 100% working interest in the property and an 80% interest in net profits with Ark La Tex having a carried and non-assessible 20% interest in net profits.

Concurrent with the public announcement of the intention to place the property into commercial production, the 20% net profits interest held by Ark La Tex is to be converted into a 20% working interest. At present the two parties are in a disagreement as to whether a public announcement was made or not made.

The Company has expended the following amounts in acquiring the claims:

Cash	\$1,450,000
Promissory note (note 11)	600,000
100,000 common shares to optionors	200,000
250,000 common shares to initial partner	<u>65,000</u>
	<u>\$2,315,000</u>

The Company has also incurred \$6,159,722 in qualified exploration expenditures.

According to the terms of the option agreement, the Optionors retain the ore from a specified area of the TM Zone. The Company was to mine and mill the ore from this area on or before September 30, 1987 and pay to the Optionors the "net smelter returns" therefrom on or before December 31, 1987.

Pursuant thereto the Company made a recoverable advance payment of \$1,200,000 to the Optionors. When the Optionors' ore is sold the Company is entitled to recover from the proceeds:

- (i) the advance payment of \$1,200,000 (note 7),
- (ii) accrued interest on \$700,000 at the prime interest rate plus 1%, and
- (iii) mining and milling costs to a maximum of \$150 per ton, smelter and refining charges, and transportation costs.

The option agreement stipulates that if the Optionors have not received the "net smelter returns" from the Company by December 31, 1987, the Company is required to pay to the Optionors a penalty of \$25,000 on January 1, 1988 and \$25,000 on the first day of each month thereafter until the Optionors have received all funds due to them.

As the Company has not commenced mining of the property and the Optionors did not receive the "net smelter returns" from the Company by December 31, 1987, the Optionors have notified the Company of the default and are demanding payment of the penalties. The Company contends that it is not in default. As the outcome of this dispute is not yet determinable, the Company's liability for the said penalty payments has not been reflected in these financial statements (note 13).

(e) Kicking Horse Claims

The option agreement that the Company entered into on November 1, 1987 to acquire these claims, was terminated effective November 20, 1988. As a result, the total cost of these claims of \$39,413 has been written off in the year.

(f) Larry Claims

These claims have been abandoned by the Company, and the total cost of \$22,158 expended on these claims has been written off in the year.

(g) Sunset Lake Properties

On July 4, 1985 the Company granted an option to Ark La Tex Industries Ltd. (Ark La Tex) on its Sunset Lake properties which comprises the Bear Claims and the Lucky Claims. Ark La Tex has earned a 60% interest in the properties by expending a minimum of \$700,000 of qualified expenditures on the properties prior to July 1, 1988. The Company is the manager of the project for which it receives a management fee of 10% of expenditures, excluding third party contracts.

As at December 31, 1988, an aggregate of \$498,758 has been expended on the properties, including management fees of \$44,322 paid to the Company. Silver Hart's 40% share of these expenditures amounted to \$187,536. Including the expenditures previously incurred by Silver Hart Mines Ltd. prior to the joint venture, the Company has expended an aggregate of \$465,496 on these properties.

(h) Snow Lake Properties

Pursuant to an agreement dated March 25, 1986 the Company acquired the Snow Lake properties from a third party. The properties have been transferred to Snow Lake Mines Ltd., a wholly-owned subsidiary, pursuant to Subsection 85(1) of the Income Tax Act for the following consideration plus costs of acquisition:

Cash		\$1,900,000
1,750,000 shares of Snow Lake Mines Ltd. at a value of \$1.35 per share	\$2,362,500	
Less difference between the value of shares and consideration paid by Silver Hart Mines Ltd., such consideration being 157,978 shares of Silver Hart Mines Ltd. valued at \$1,000,000	<u>1,362,500</u>	
		<u>1,000,000</u>
		<u>\$2,900,000</u>

Subsequently the Company acquired 1.5 percentage points of a 3.5% net smelter returns production royalty for 200,001 common shares of Snow Lake Mines Ltd. being valued at \$641,250.

The companies are liable until the occurrence of six months of continuous production, for a pre-production royalty of \$25,000 on each of January 31, 1987 through 1991. The last payment is subject to the requirement that production commence not later than December 31, 1990, or June 30, 1991 if the companies pay \$50,000 to extend the date. If production has not commenced by the required date, the companies will no longer have an interest in the property and must transfer their interest to the holder of the net smelter returns production royalty.

Once production has commenced, Snow Lake Mines Ltd. is liable for a net smelter returns production royalty of:

- (i) 2.0% on base and precious metals production on three specific claims, and
- (ii) 1.0% on base and precious metals production on the balance of the claims.

(i) Kobar Claims

In December, 1987 Snow Lake Mines Ltd. acquired an option for 100% interest in a number of mineral claims in the Pas Mining District for the following consideration:

- (i) 25,000 common shares of Snow Lake Mines Ltd. upon execution
- (ii) 25,000 common shares of Snow Lake Mines Ltd. on December 31, 1988
- (iii) 50,000 common shares of Snow Lake Mines Ltd. on December 31, 1989.

The optionor will retain a 15% net profits royalty interest being equal to 15% of the net profits derived from the property.

As at December 31, 1988, 50,000 common shares were issued to the optionor. The acquisition cost is recorded at \$30,750, being the quoted market value of the common shares at the time they were issued.

Cumulative costs since inception on each property are as follows:

	<u>1988</u>	<u>1987</u>	<u>Cumulative Since Inception</u>
AAH Claims	\$ —	\$ —	\$ 34,245
Pistol Lake	21,501	123,144	2,460,536
Turner	16,219	400,866	423,315
Hood	(807)	13,412	191,399
Mate	4,877	—	426,989
Hart	172,587	2,713,148	8,527,372
Sunset Lake	228,761	102	465,496
Snow Lake	201,110	1,863,808	5,792,842
Kobar	<u>8,250</u>	<u>22,500</u>	<u>30,750</u>
	<u>\$ 652,498</u>	<u>\$ 5,136,980</u>	<u>\$18,352,944</u>

9. BANK LOAN

The bank loan which bears interest at bank prime plus 1% is to be repaid from the proceeds of the promissory notes receivable (note 7). The bank loan is secured by:

- (i) the proceeds of the promissory note receivable
- (ii) general assignment of book debts
- (iii) hypothecation of 1,000,000 shares of the subsidiary company, Snow Lake Mines Ltd.
- (iv) a floating charge debenture on assets and undertakings of the Company but limited to \$1,500,000.

Interest on the bank loan is payable monthly.

10. PROMISSORY NOTES PAYABLE

	<u>1988</u>	<u>1987</u>
Note payable to affiliated company, unsecured, bearing interest at prime plus 2%, due October 31, 1987	\$ 775,000	\$1,075,000
Notes payable to shareholders	—	400,000
Promissory note payable on demand, bearing interest at 12% calculated monthly, secured by the assignment of 2,982,728 common shares in Snow Lake Mines Ltd., together with voting rights attached thereto	600,000	—
Note payable to shareholder, unsecured, bearing interest at prime plus 2%, payable on demand, includes accrued interest of \$382 to December 31, 1988	<u>15,382</u>	<u>—</u>
	<u>\$1,390,382</u>	<u>\$1,475,000</u>

The note payable to an affiliated company is payable on demand. A payment of \$200,000 was made on February 1, 1989. The balance was settled on March 17, 1989 by assumption of the affiliated company's debt to the bank. (note 14(b)).

11. LONG-TERM DEBT

	<u>1988</u>	<u>1987</u>
Notes payable, pursuant to acquisition of Solid Wireline Services partnership interest (note 4), bearing interest at 8% payable semi-annually, secured by partnership assets, due on demand not prior to April 29, 1989, subsequently extended to July 31, 1989	\$ 800,000	\$ 800,000
Promissory note payable to original Optionors of the HART claims (note 8(d)) pursuant to irrevocable commitments upon exercising of the option, secured by the HART property, non-interest bearing, due October 31, 1989	<u>600,000</u>	<u>1,200,000</u>
	1,400,000	2,000,000
Less principal due within one year included in current liabilities	<u>1,400,000</u>	<u>600,000</u>
	<u>\$ —</u>	<u>\$1,400,000</u>

12. SHARE CAPITAL

AUTHORIZED

Unlimited common voting shares without par value.

Unlimited first preferred non-voting shares without par value, stated issue price of \$10 per share, to be issued in series, with rights, privileges, restrictions and conditions to be determined by Directors' resolution prior to issue.

Unlimited second preferred non-voting shares without par value, stated issue price of \$10 per share, to be issued in series with rights, privileges, restrictions and conditions to be determined by Directors' resolution prior to issue.

ISSUED

	Number Issued	Consideration			
		Total	Cash	Property	Services
Common Shares					
Issued at December 31, 1987	6,661,608	\$14,288,015	\$7,604,850	\$6,677,865	\$5,300
Issued during the year:					
Pursuant to private placement to renounce qualified exploration expenditures (\$1.70 per share)	213,001	362,101	362,101	—	—
For finders fees relating to above financing (\$1.70 per share)	13,236	22,500	—	—	22,500
Pursuant to rights offering (\$2.50 per share)	<u>23,501</u>	<u>58,754</u>	<u>58,754</u>	<u>—</u>	<u>—</u>
Issued at December 31, 1988	<u>6,911,346</u>	<u>\$14,731,370</u>	<u>\$8,025,705</u>	<u>\$6,677,865</u>	<u>\$27,800</u>

Share options have been granted as follows:

	Number of Common Shares
Outstanding at December 31, 1987	135,000
Expired in 1988	(110,000)
Granted in 1988	—
	<u>25,000</u>
Outstanding at December 31, 1988	<u>25,000</u>

The options outstanding at December 31, 1988, expired on May 12, 1989.

13. CONTINGENT LIABILITIES

The Company is contingently liable as guarantor of a bank loan of an affiliated company in the amount of \$805,000 which is partially reduced by the promissory note payable to the affiliated company (note 10 and 14(b)).

The Company is contingently liable as guarantor of royalty interest obligations of a subsidiary company, Snow Lake Mines Ltd., being payment of a pre-production royalty of \$25,000 on each of January 3, 1990 and 1991.

Two claims of indebtedness against the Company, in the amounts of \$310,000 plus interest and costs, and \$300,000, are pending further investigation. As the Company feels that it can successfully defend both claims, no liability has been reflected in these financial statements. The latter claim relates to the demand for monthly penalty payments by the Optionors of the HART property (note 8(d)).

14. SUBSEQUENT EVENTS

(a) Sale of investment in Porta - Test Inc.

On March 30, 1989 the Company entered into an agreement with a third party to sell their 62% interest in Porta - Test Inc. The purchase price for the shares held by the company was \$100,000, to be paid in cash. A commission of \$30,000 related thereto is payable to a related party.

The impact of the sale of the investment in Porta - Test Inc. on the financial position of the Company at December 31, 1988 is summarized as follows:

	<u>Sale Of Investment</u>	
	<u>Before</u>	<u>After</u>
Total assets	\$20,989,041	\$21,022,541
Net income (loss)	(869,564)	(836,064)
Accumulated deficit	(2,477,306)	(2,443,806)

(b) Assumption of note payable of an affiliated company

On March 17, 1989, the bank demanded repayment of the indebtedness of an affiliated company in the amount of \$805,000 plus interest. This demand was also made on the Company pursuant to a guarantee dated May 26, 1986. The bank agreed to lend \$575,000 to the Company which in turn was applied to the called loan as partial satisfaction of the bank's demand. This payment by the Company was offset against an amount previously owing by the Company to its affiliate. In addition to the \$575,000 loan from the bank, the Company remains indebted to the bank for \$230,000 pursuant to the guarantee.

15. STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>1988</u>	<u>1987</u>
Cash (bank indebtedness) comprised of		
Cash (bank indebtedness) and term deposits	\$ (4,985)	\$ 44,242
Cash in escrow	—	539,000
Bank loans	(700,000)	(700,000)
	<u>\$ (704,985)</u>	<u>\$ (116,758)</u>

16. INCOME TAXES

(a) Deferred exploration and development costs

Pursuant to provisions of the Income Tax Act, the Company has renounced certain amounts it has incurred as deferred exploration and development expenditures, thereby reducing amounts it might otherwise have deducted against taxable incomes of future years. The following summary indicates amounts deductible by the companies for income tax purposes.

	<u>Cumulative Since Inception</u>	
	<u>Silver Hart Mines Ltd.</u>	<u>Snow Lake Mines Ltd.</u>
Amounts renounced to shareholders	\$ 8,523,515	\$ 1,452,500
Renounced expenditures transferred	(604,784)	604,784
Amounts deductible by the company as direct expenses	188,882	241,790
Amounts deductible by the company as exploration and development expenses against taxable income of future years	4,750,527	3,094,617
Excess of book value over roll-over value for income tax purposes	—	2,003,748
	<u>12,858,140</u>	<u>7,397,439</u>
Less amounts on properties that have been abandoned	(328,788)	—
	<u>\$12,529,352</u>	<u>\$ 7,397,439</u>
Deductible exploration and development expenses incurred	\$ 4,750,527	\$ 3,094,617
Less: claimed and included in loss carried forward for income tax purposes	<u>1,533,410</u>	<u>1,942,257</u>
Available as deductions against future taxable incomes	<u>\$ 3,217,117</u>	<u>\$ 1,152,360</u>

(b) Loss carried forward for income tax purposes

The companies have losses carried forward for income tax purposes available for deduction against future taxable incomes as follows:

	<u>Silver Hart Mines Ltd.</u>	<u>Snow Lake Mines Ltd.</u>
<u>Deductible until</u>		
December 31, 1990	\$ 133,217	\$ —
December 31, 1991	138,025	—
December 31, 1992	725,577	—
December 31, 1993	438,303	1,052,572
December 31, 1994	1,212,933	804,397
December 31, 1995	731,598	513,609
	<u>\$ 3,379,653</u>	<u>\$ 2,370,578</u>

Losses carried forward of \$1,225,884 and \$2,180,609 of Silver Hart Mines Ltd. and Snow Lake Mines Ltd. respectively have been reflected in these financial statements by offsetting deferred tax credits of the same amount. The income tax effect of the balance of these losses carried forward has not been reflected in these financial statements.

17. RELATED PARTY TRANSACTIONS

During the year the Company undertook the following transactions with related entities.

<u>Entity</u>	<u>Nature of Transaction</u>
Company related to President and Secretary-Treasurer	\$116,589 was paid as interest on \$775,000 promissory note payable
Public company in which President and Secretary-Treasurer are directors and own 6.1% of outstanding shares.	\$50,158 was received as management fee from that company.
A subsidiary company	\$18,087 was received as management fee from the company

18. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration paid to officers during the year was \$88,250 (1987 — \$78,000). No remuneration was paid to directors in their capacity as directors.

CORPORATE INFORMATION

Transfer Agents

Registrar and Transfer Agent is Montreal Trust Company at principal offices in Calgary and Vancouver.

Auditors

Kouri Berezan Heinrichs
Edmonton, Alberta

Corporate Offices

5710 - 17 Street
Edmonton, Alberta
T6P 1S4

Market Price of Common Shares

The common shares of the company are traded on the Vancouver and Alberta Stock Exchanges under the symbol SVM and on NASDAQ under the symbol SVMHF. Trading began on May 15, 1984.

	High	Low
1984	2.10	1.00
1985	19.125	1.85
1986	14.00	4.00
1987	7.00	2.50
1988 First Quarter	2.75	2.20
Second Quarter	2.50	2.05
Third Quarter	2.00	.91
Fourth Quarter	1.45	.76

No dividends have been paid on the common shares.

Annual Meeting of Shareholders

The Company's Annual Meeting of Shareholders will be held on Wednesday, September 27, 1989 at Franklins Inn, 2016 Sherwood Dr., Sherwood Park, Alberta.

DIRECTORS AND MANAGEMENT

Alvin Harter
Edmonton, Alberta

John McCutcheon
Vancouver, B.C.

Alvin Kuehn
Edmonton, Alberta

Robert Lee
Vancouver, B.C.

Richard Ray
Los Angeles, California

Roy A. Hoffman
Calgary, Alberta

C.R. MacDonald
Edmonton, Alberta

Robert H. Teskey
Edmonton, Alberta

President,
Chief Executive Officer
and Director

Secretary
Chief Financial Officer
and Director

Director, Vice-President

Director

Director

Director

Director

Director

